

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
FINANCIAL STATEMENTS
JUNE 30, 2006

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Independent Auditors' Report

To the Management
Drinking Water Revolving Loan Fund
Dover, Delaware

We have audited the accompanying financial statements of Drinking Water Revolving Loan Fund (the Fund) of the State of Delaware, as of and for the years ended June 30, 2006 and 2005. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Fund and are not intended to present the financial position of the State of Delaware, and the results of its operations in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Fund, as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2006, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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Independent Auditors' Report (Cont'd.)

Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information as required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 26 through 29 is presented for purposes of additional analysis and is a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McBride, Shogan & Co

Wilmington, Delaware
October 31, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

The State of Delaware Drinking Water Revolving Loan Fund (the Fund) established through Chapter 79, Title 29, Subsection 15 of the Delaware Code, provides financial assistance to eligible public water systems in Delaware for the planning, design and construction of drinking water facilities as well as loans for land acquisition for source water protection purposes. The Fund is funded through federal capitalization grants as established under Section 1452 of the Safe Drinking Water Act. The Act requires the State of Delaware to provide matching funds equal to 20 percent of federal funds received.

The Fund is administered by the State of Delaware, Department of Health and Social Services (DHSS), Division of Public Health (DPH) under the supervision of the Governor's Cabinet Committee on State Planning Issues. DPH's primary activities include making loans, providing direct assistance and managing the Fund to meet the objectives of the Safe Drinking Water Act.

The Fund is made up of five sub-funds, each of which is considered a separate accounting entity. The primary activity of the Loan Fund is the issuance of loans. The four Set-aside Sub-Funds are used to account for the proceeds of specific grant revenues that are legally restricted to expenditures for specific purposes.

The Fund's activities are accounted for as a distinct operating unit within the DPH. Accordingly, the financial statements of the Fund are intended to present the financial position and the results of operations of only that portion of the funds of the State of Delaware that is attributable to the transactions of the Fund.

The Fund is accounted for as an enterprise fund. The accrual basis of accounting is utilized in enterprise funds. Revenue is recognized when earned and expenses are recognized when the liability is incurred.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd.)
JUNE 30, 2006

This section of the Fund's annual financial report presents management's discussion and analysis of the Fund's financial performance for the fiscal year ended June 30, 2006. All amounts in Tables 1 and 2 of management's discussion and analysis are in thousands of dollars unless otherwise noted. It must be read in conjunction with the Fund's financial statements, which follow this section.

Financial Highlights

The Fund realized a change in net assets of \$4,530,939 in fiscal year 2006, which represents a decrease of 20.3% from the change in net assets of \$5,685,339 in fiscal year 2005 due to decreased loan activity.

Grant revenue recognized from the Federal and State governments totaled \$5,544,617 in fiscal year 2006, a 19.4% decrease from fiscal year 2005 due to decreased loan activity.

Loans made totaled \$3,395,500 during this fiscal year, which represents a decrease of \$1,451,611 from the previous year. This is a decrease of 29.9% because of decreased new applications and draws on existing loans from municipalities and others through the State.

Loan collections (principal and interest) totaled \$485,596 during this fiscal year. This represents an overall decrease of \$662,541, or 57.7% from the prior year because the additional loan recipients have not completed their projects, at which time repayments are required to take place.

Statement of Net Assets

The total net assets of the Fund for year ending June 30, 2006 increased by \$4,530,939. The following condensed statement of net assets shows a summary of changes in dollars and percentages between fiscal years.

Cash increased approximately \$4.0 million (55.6%) to \$11,116,618 as matching funds due from the State were received. Loans receivable increased by \$2.9 million, 15.4%, to \$21,824,145 million, mostly as a result of the issuance of five new loans and more draws on existing loans. Federal grants receivable decreased by approximately \$485,300, 80.7%, mostly due to the timing of reimbursements from EPA during the fiscal year ended June 30, 2006.

State advances decreased identically to Federal grants receivable as this account represents amounts advanced to the Fund in anticipation of Federal grants as of June 30, 2006. Deferred revenue from the State match increased \$794,060, 10.8%, as the State drew down its match to fund loan disbursements during the fiscal year, but it received a new grant from EPA which requires a match to be deposited into the Fund.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd.)
JUNE 30, 2006

TABLE 1
NET ASSETS
(Thousands of Dollars)

	<u>2006</u>	<u>2005</u>	<u>Increase (decrease)</u>	<u>Percent Change</u>
CURRENT ASSETS				
Cash	\$ 11,116.6	\$ 7,144.4	\$ 3,972.2	55.6
Loans, current portion	486.9	539.1	(52.2)	(9.7)
Loan interest	344.9	291.6	53.3	18.3
Loan to Drinking Water Grant Fund	891.1	891.1	-	-
Federal grants receivable	116.4	601.7	(485.3)	(80.7)
State grants receivable	<u>1,660.6</u>	<u>3,271.1</u>	<u>(1,610.5)</u>	<u>(49.2)</u>
Total current assets	14,616.5	12,739.0	1,877.5	14.7
NONCURRENT ASSETS				
Loans, net of current portion	<u>21,337.2</u>	<u>18,375.1</u>	<u>2,962.1</u>	<u>16.1</u>
Total assets	<u>\$ 35,953.7</u>	<u>\$ 31,114.1</u>	<u>\$ 4,839.6</u>	<u>15.6</u>
LIABILITIES				
State advances	\$ 116.4	\$ 601.7	\$ (485.3)	(80.7)
Deferred revenue - state match	<u>8,133.7</u>	<u>7,339.6</u>	<u>794.1</u>	<u>10.8</u>
Total Liabilities	8,250.1	7,941.3	308.8	3.9
NET ASSETS - unrestricted	<u>27,703.6</u>	<u>23,172.8</u>	<u>4,530.8</u>	<u>19.6</u>
Total liabilities and net assets	<u>\$ 35,953.7</u>	<u>\$ 31,114.1</u>	<u>\$ 4,839.6</u>	<u>15.6</u>

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd.)
JUNE 30, 2006

Statement of Revenue, Expenses and Changes in Net Assets

The following schedule summarizes the statement of revenue, expenses and changes in net assets of the Fund for the fiscal years ended June 30, 2006 and 2005.

Federal grant revenue decreased by \$1,116,302 million, 29.5%, and the State match revenue decreased by \$258,049, 24.2%, both mostly as a result of the decrease in demand from municipalities for drawing down on their low-interest loans during the current year.

Federal grant revenue for set-aside sub-funds increased by approximately \$41,400, 2.0% due to increased activities in the set-aside sub-funds by the Office of Drinking Water.

Interest income from cash deposits increased by \$181,558, 168.8%, due mainly to increases in cash and cash equivalents held throughout the year and increases in interest rates (see Note 2).

Operating expenses increased by approximately \$48,595, 2.4%, due mainly to increased activity in the sub-funds by the Office of Drinking Water.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont'd.)
JUNE 30, 2006

TABLE 2
CHANGES IN NET ASSETS
(Thousands of Dollars)

	<u>2006</u>	<u>2005</u>	<u>Increase (decrease)</u>	<u>Percent Change</u>
Operating revenue				
Loan origination fees	\$ 104.7	\$ 135.5	\$ (30.8)	(22.7)
Interest income - loans	<u>669.6</u>	<u>593.1</u>	<u>76.5</u>	<u>12.9</u>
Total operating revenue	774.3	728.6	45.7	6.3
Operating expenses				
Salaries and related benefits	655.8	525.4	130.4	24.8
Contract services	478.3	292.6	185.7	63.5
Indirect costs	69.2	64.7	4.5	7.0
Subgrants	799.9	1,074.1	(274.2)	(25.5)
Supplies	45.2	50.4	(5.2)	(10.3)
Equipment	11.0	6.5	4.5	69.2
Travel	9.4	6.1	3.3	54.1
Training	<u>8.2</u>	<u>8.5</u>	<u>(0.3)</u>	<u>(3.5)</u>
Total operating expenses	<u>2,077.0</u>	<u>2,028.3</u>	<u>48.7</u>	<u>2.4</u>
Operating loss	(1,302.7)	(1,299.7)	(3.0)	0.2
Non-operating revenue				
Interest income - cash deposits	289.0	107.5	181.5	168.8
Grant revenue	2,666.0	3,782.3	(1,116.3)	(29.5)
Grant revenue - set asides	2,071.9	2,030.5	41.4	2.0
State match	<u>806.8</u>	<u>1,064.8</u>	<u>(258.0)</u>	<u>(24.2)</u>
Total non-operating revenue	<u>5,833.7</u>	<u>6,985.1</u>	<u>(1,151.4)</u>	<u>(16.5)</u>
Change in net assets	4,531.0	5,685.4	(1,154.4)	(20.3)
Net assets, beginning of year	<u>23,172.8</u>	<u>17,487.4</u>	<u>5,685.4</u>	<u>32.5</u>
Net assets, end of year	<u>\$ 27,703.8</u>	<u>\$ 23,172.8</u>	<u>\$ 4,531.0</u>	<u>19.6</u>

FINANCIAL STATEMENTS

STATE OF DELAWARE DRINKING WATER REVOLVING LOAN FUND
STATEMENTS OF FUND NET ASSETS
JUNE 30, 2006 AND 2005

ASSETS		
	<u>2006</u>	<u>2005</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 11,116,618	\$ 7,144,385
Loans receivable - current portion	486,926	539,101
Loan interest receivable	344,897	291,535
Loan to Drinking Water Grant Fund	891,050	891,050
Federal grants receivable	116,424	601,728
State grants receivable	<u>1,660,620</u>	<u>3,271,120</u>
Total current assets	14,616,535	12,738,919
NONCURRENT ASSETS		
Loan receivable - net of current portion	<u>21,337,219</u>	<u>18,375,140</u>
Total assets	<u>\$ 35,953,754</u>	<u>\$ 31,114,059</u>
LIABILITIES		
CURRENT LIABILITIES		
State advances	\$ 116,424	\$ 601,728
LONG-TERM LIABILITIES		
Deferred revenue - state match	<u>8,133,687</u>	<u>7,339,627</u>
Total liabilities	8,250,111	7,941,355
NET ASSETS		
NET ASSETS - unrestricted	<u>27,703,643</u>	<u>23,172,704</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 35,953,754</u>	<u>\$ 31,114,059</u>

The accompanying notes are an integral part of the financial statements.

STATE OF DELAWARE DRINKING WATER REVOLVING LOAN FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUE		
Interest income - loans	\$ 334,778	\$ 296,576
Interest income - administrative fees	334,777	296,575
Loan origination fees	<u>104,683</u>	<u>135,497</u>
Total operation revenue	774,238	728,648
OPERATING EXPENSES		
Salaries and related benefits	655,767	525,365
Contract services	478,344	292,647
Indirect costs	69,150	64,736
Subgrants	799,872	1,074,104
Supplies	45,244	50,389
Equipment	10,982	6,508
Training	8,150	8,500
Travel	<u>9,445</u>	<u>6,110</u>
Total operating expenses	<u>2,076,954</u>	<u>2,028,359</u>
Operating loss	(1,302,716)	(1,299,711)
NONOPERATING INCOME REVENUE		
Interest income - cash	289,038	107,480
Grant revenue	2,666,000	3,782,302
Grant revenue - set asides	2,071,857	2,030,459
State match	<u>806,760</u>	<u>1,064,809</u>
Total non-operating revenue	<u>5,833,655</u>	<u>6,985,050</u>
CHANGE IN NET ASSETS	4,530,939	5,685,339
NET ASSETS - BEGINNING	<u>23,172,704</u>	<u>17,487,365</u>
NET ASSETS - ENDING	<u>\$ 27,703,643</u>	<u>\$ 23,172,704</u>

The accompanying notes are an integral part of the financial statements.

STATE OF DELAWARE DRINKING WATER REVOLVING LOAN FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Loan repayments	\$ 485,596	\$ 1,148,137
Interest received from borrowers	616,193	489,329
Loan origination fees	104,683	135,497
Loan disbursements	(3,395,500)	(4,847,111)
Salaries and related benefits paid	(655,767)	(525,365)
General expenses paid	<u>(1,421,187)</u>	<u>(1,505,094)</u>
NET CASH USED BY OPERATING ACTIVITIES	(4,265,982)	(5,104,607)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received from cash deposits	<u>289,038</u>	<u>107,480</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	289,038	107,480
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Loan to Drinking Water Grant Fund	-	(891,050)
Grants received from EPA	5,223,161	6,964,087
Advances from State of Delaware	(485,304)	(1,151,327)
Grants received from State of Delaware	<u>3,211,320</u>	<u>1,557,820</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>7,949,177</u>	<u>6,479,530</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,972,233	1,482,404
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>7,144,385</u>	<u>5,661,981</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 11,116,618</u></u>	<u><u>\$ 7,144,385</u></u>

The accompanying notes are an integral part of the financial statements.

STATE OF DELAWARE DRINKING WATER REVOLVING LOAN FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (1,302,716)	\$ (1,299,711)
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH USED BY OPERATING ACTIVITIES		
Loans receivable	(2,909,904)	(3,698,974)
Increase in interest receivable	(53,362)	(103,822)
Accounts payable	<u>-</u>	<u>(2,100)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (4,265,982)</u>	<u>\$ (5,104,607)</u>

The accompanying notes are an integral part of the financial statements.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the State of Delaware Drinking Water Revolving Loan Fund (the Fund) is presented to assist in understanding the Fund's financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

General Background. The State of Delaware Drinking Water Revolving Loan Fund established through Chapter 79, Title 29, Subsection 15 of the Delaware Code, provides financial assistance to eligible public water systems in Delaware for the planning, design and construction of drinking water facilities as well as loans for land acquisition for source water protection purposes. Standard loans made by the Fund must be repaid within 20 to 30 years. All repayments, including interest and principal, must remain in the Fund.

The Fund is administered by the State of Delaware, Department of Health and Social Services (DHSS), Division of Public Health (DPH) under the supervision of the Governor's Cabinet Committee on State Planning Issues. DPH's primary activities include making loans, providing direct assistance and managing the coordination of the Fund to meet the objectives of the Safe Drinking Water Act.

The Fund is funded through federal capitalization grants as established under Section 1452 of the Safe Drinking Water Act. The Act requires the State of Delaware to provide matching funds equal to 20 percent of federal funds received. The grants were issued as follows:

<u>Grant Year</u>	<u>Total Available Funding</u>	<u>Federal Portion</u>	<u>State Portion</u>
1997	\$ 15,070,560	\$ 12,558,800	\$ 2,511,760
1999	17,502,120	14,585,100	2,917,020
2001	9,308,400	7,757,000	1,551,400
2002	9,346,920	7,789,100	1,557,820
2003	9,663,000	8,052,500	1,610,500
2004	9,604,920	8,004,100	1,600,820
2005	9,963,720	8,303,100	1,660,620
Total	<u>\$ 80,459,640</u>	<u>\$ 67,049,700</u>	<u>\$ 13,409,940</u>

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

The fourth match was deposited by the State into the Fund during fiscal year 2005. The fifth and sixth matches were deposited by the State into the Fund during fiscal year 2006. The seventh match will be deposited by the State into the Fund during fiscal year 2007.

The Fund is accounted for as an enterprise fund. The Fund is made up of several sub-funds, each of which is considered a separate accounting entity. The sub-funds are described below:

Loan Fund

The primary purpose of the Loan Fund is to serve as a permanent loan fund to make low-interest loans to public water systems.

Set-aside Sub-Funds

The set-aside funds are used to account for the proceeds of specific grant revenues that are legally restricted to expenditures for specific purposes.

There are four such funds.

1. The 2% Technical Assistance Sub-Fund is used to account for the funds allotted to the State (up to 2% of the total) to provide assistance to public water systems serving 10,000 people or fewer.
2. The 4% Administration Sub-Fund is used to account for the funds allotted to the State (up to 4% of the total) for the reasonable costs of administering the programs under section 1452 and providing technical assistance. These costs may include such activities as issuing debt; program start-up costs; audit costs; financial, management and legal consulting fees; development of an intended use plan and priority ranking system; development of affordability criteria; and cost of support services provided by other State agencies.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Set-aside Sub-Funds (Cont'd.)

3. The 10% Program Management Sub-Fund is used to account for the funds allotted to the State (up to 10% of the total) to:

- a. administer the State Public Water Supply System (PWSS) program;
- b. administer or provide technical assistance through source water protection programs;
- c. develop and implement a capacity development strategy; and
- d. develop and implement an operator certification program.

The State must provide a dollar for dollar match (100 percent for up to 10 percent of the capitalization grant) for capitalization grant funds used for these purposes. This match is separate, and in addition to, the 20 percent match for the capitalization grant.

4. The 15% Local Assistance Sub-Funds are used to fund several other categories of activities to assist development and implementation of local drinking water protection initiatives with the stipulation that not more than 20% of the capitalization grant amount can be used for any one activity.

Type of Entity and Division of Funds. The Fund's activities are accounted for as a distinct operating unit within the DPH. Accordingly, the financial statements of the Fund are intended to present the financial position and the results of operations of only that portion of the funds and account groups of the State of Delaware that is attributable to the transactions of the Fund.

Adoption of GASB Statement 20. The Fund has adopted the provision of GASB Statement 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting", which provides for the consistent application or nonapplication to proprietary funds of pronouncements of the Financial Accounting Standards Board (FASB), issued after November 30, 1989. Accordingly, the Fund has elected not to adopt FASB pronouncements issued after November 30, 1989, unless GASB specifically adopts such pronouncements.

Basis of Accounting. The Fund uses the economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Recognition of Revenues. By the terms of agreements between the State and the EPA, which commenced in fiscal year 1999, federal assistance provided to the Fund is earned when qualified loans and expenditures are made to eligible public water systems. Matching funds provided by the State are considered earned by the same criteria. However, in fiscal year 2002, the State's matching requirement for the Set-aside Funds was met using designated expenditures made for other programs; therefore, no State monies were required to be provided to the Set-aside Funds. The State's matching requirement for the Loan Fund was made using State General Fund monies.

Amounts earned in excess of grant monies received from EPA and the State are recorded as grants receivable, whereas an excess of grant monies received over the amounts earned is recorded as deferred grant revenue. A right of set-off does not exist between the State and EPA.

Cash and Cash Equivalents. For purposes of the statement of cash flows, the Fund considers short-term investments with an original maturity of three months or less to be cash equivalents.

Operating and Non-operating Revenues. The Fund considers revenue from its lending activities in the Loan sub-fund to be operating. It considers revenue from grants and interest income received on cash deposits to be non-operating.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 2 CASH AND CASH EQUIVALENTS

Cash. "Cash" as reported on the statement of net assets represents the Fund's allocated share of cash, cash equivalents and investments under the control of the Treasurer of the State of Delaware. All cash deposited with the Treasurer by state agencies is maintained by the Treasurer in various pooled funds. The State Treasurer invests the deposited cash including cash float in short-term securities and other investments. However, the Fund may deposit or withdraw cash at any time without prior notice or penalty. Interest income is credited to the Fund based on the weighted average rate of return on the State's monies applied to the Fund's average daily cash balance. The classification of pooled cash and investments of the Fund is not determinable at the entity level. Pooled investments represent those investments in units of a pool rather than specific securities. As a result, such investments are not categorized as to risk because they are not evidenced by securities that exist in a physical or book-entry form.

The Cash Management Policy Board. The Corporation follows the "Statement of Objectives and Guidelines for the Investments of State of Delaware", of the State's Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the State with certain limited exceptions.

Investment Guidelines and Management. The State's Cash Management Policy categorizes all cash and special purpose funds for which the State is financially accountable as follows:

- A. Cash Accounts: Divide the State's available cash into three parts:
 - 1) Collection and Disbursement Accounts,
 - 2) Cash and Liquidity Accounts,
 - 3) Reserve Cash (Intermediate) Accounts.
- B. Special Purpose Accounts. There are two primary types of Special Purpose Accounts:
 - 1) Endowment Accounts,
 - 2) Authority Accounts: The State's Authorities (State Agencies, Local School Districts and Component Units) maintain a variety of fund types, including various operating funds, bond funds and debt service reserve funds.

The Fund's accounts are considered Cash Accounts.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

CASH AND CASH EQUIVALENTS (Cont'd.)

The investment guidelines, adopted by the Board provide, among other things, that no more than 10% of the entire portfolio may be invested in obligations of any one issuer other than the U.S. Government. Investments may be made only in fixed income instruments with maturities of up to five years in certain circumstances. The State's Cash Management Policy is available on the Internet at <http://www.state.de.us/treasure/information/cash.shtml>.

Custodial Credit Risk

Collateralization Requirements. All State deposits are required by law to be collateralized by direct obligations of, or obligations which are guaranteed by, the United States of America, or other suitable obligations as determined by the Board, unless the Board shall find such collateralization not in the best interest of the State. The Board has determined that certificates of deposit and time deposits must be collateralized, unless the bank issuing the certificate has assets of not less than \$5 billion and is rated not lower than "B" by Fitch, Inc. Bank Watch. The Board has also determined that State demand deposits need not be collateralized provided that any bank that holds these funds has had for the last two years, a return on average assets of 0.5% or greater and an average equity-capital ratio of at least 1:20. If the bank does not meet the above criteria, collateral must consist of one or more of the following:

- (a) U.S. Government securities;
- (b) U.S. Government agency securities;
- (c) Federal Home Loan Board letters of credit;
- (d) State of Delaware securities; or
- (e) Securities of a political subdivision of the State with a Moody's Investors Service rating of "A" or better.

Additionally, the bank must ensure that those securities pledged as collateral have a market value equal to or greater than 102% of the ledger balance(s) in the account(s) each day and ensure that securities pledged are identified as held in the State's name and are segregated on the bank's records.

At June 30, 2006, the financial institutions maintaining the Fund's deposits satisfied the criteria listed above and the deposits held by those institutions did not require collateralization.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

**NOTE 3 AVAILABLE FUNDING, DISBURSEMENTS AND REMAINING
BALANCE BY FUNDING YEAR**

As of June 30, 2006, the Fund had open federal grants totaling \$67,049,700, from which it had had made disbursements of \$30,525,576. The breakdown for all grants is as follows:

Loan Fund

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997	\$ 9,288,036	\$ 9,288,036	\$ -
1999	11,642,600	9,113,044	2,529,556
2001	5,352,330	18,891	5,333,439
2002	5,653,979	297,615	5,356,364
2003	5,712,775	1,137	5,711,638
2004	5,522,829	-	5,522,829
2005	6,281,257	-	6,281,257
Total	<u>\$ 49,453,806</u>	<u>\$ 18,718,723</u>	<u>\$ 30,735,083</u>

Set-aside Funds

2% Technical Assistance

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997	\$ 251,176	\$ 251,176	\$ -
1999	291,702	291,702	-
2001	155,140	153,181	1,959
2002	155,782	146,049	9,733
2003	161,050	9,998	151,052
2004	160,082	6,394	153,688
2005	166,062	-	166,062
Total	<u>\$ 1,340,994</u>	<u>\$ 858,500</u>	<u>\$ 482,494</u>

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

AVAILABLE FUNDING, DISBURSEMENTS AND REMAINING BALANCE BY FUNDING YEAR (Cont'd.)

4% Administration

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997	\$ 502,352	\$ 502,352	\$ -
1999	583,404	572,169	11,235
2001	310,280	283,810	26,470
2002	311,564	246,398	65,166
2003	322,100	244,502	77,598
2004	320,164	102,399	217,765
2005	332,124	-	332,124
Total	<u>\$ 2,681,988</u>	<u>\$ 1,951,630</u>	<u>\$ 730,358</u>

10% Program Management

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997	\$ 633,416	\$ 633,416	\$ -
1999	1,458,510	1,431,340	27,170
2001	775,700	750,220	25,480
2002	778,910	772,910	6,000
2003	805,250	717,500	87,750
2004	800,410	408,920	391,490
2005	830,310	-	830,310
Total	<u>\$ 6,082,506</u>	<u>\$ 4,714,306</u>	<u>\$ 1,368,200</u>

15% Local Assistance

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997	\$ 1,883,820	\$ 1,883,820	-
1999	608,884	584,414	24,470
2001	1,163,550	609,626	553,924
2002	888,865	551,273	337,592
2003	1,051,325	385,070	666,255
2004	1,200,615	268,214	932,401
2005	693,347	-	693,347
Total	<u>\$ 7,490,406</u>	<u>\$ 4,282,417</u>	<u>\$ 3,207,989</u>

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

AVAILABLE FUNDING, DISBURSEMENTS AND REMAINING BALANCE BY FUNDING YEAR (Cont'd.)

Total Program Balance

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997	\$ 12,558,800	\$ 12,558,800	\$ -
1999	14,585,100	11,992,669	2,592,431
2001	7,757,000	1,815,728	5,941,272
2002	7,789,100	2,014,245	5,774,855
2003	8,052,500	1,358,207	6,694,293
2004	8,004,100	785,927	7,218,173
2005	<u>8,303,100</u>	<u>-</u>	<u>8,303,100</u>
Total	<u>\$ 67,049,700</u>	<u>\$ 30,525,576</u>	<u>\$ 36,524,124</u>

NOTE 4 UNUSED FEDERAL FUNDS

The following is a summary of the federal cash draws and disbursements executed during fiscal year 2006 and the remaining unused balance for the 1999, 2001, 2002, 2003 and 2004 entitlements as of June 30, 2006:

	<u>1999</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Beginning Balance	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grant payments	3,662,554	38,994	1,058,322	431,667	36,224
Loan disbursements	(6,094,389)	2,191,410	1,238,116	(1,137)	-
Set aside disbursements	<u>2,431,835</u>	<u>(2,230,404)</u>	<u>(2,296,438)</u>	<u>(430,530)</u>	<u>(36,224)</u>
Unused federal funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 5 GRANTS RECEIVABLE

Grants receivable of \$116,424 and \$601,728, as of June 30, 2006 and 2005, respectively, represent amounts due from the Federal government for amounts expended or accrued.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 6 LOANS RECEIVABLE

The loans receivable account is made up of the following major categories.

	Binding Commitments	Loans Receivable 2006	2005
Municipal:			
Town of Felton	\$ 370,000	\$ 288,696	\$ 303,927
Town of Frankford	1,095,000	1,032,996	1,037,558
Town of Blades	614,080	446,911	378,370
Town of Milton	643,370	635,621	635,621
City of Wilmington	24,700,000	2,079,605	860,909
Town of Greenwood	932,000	90,618	60,919
Town of Dagsboro	1,400,000	1,377,655	839,519
Town of Millsboro	893,200	682,438	586,683
Town of Laurel	1,083,000	1,083,300	533,487
Town of Smyrna	1,751,515	1,561,682	1,628,147
City of Lewes	1,992,000	1,005,314	578,222
Town of Georgetown	<u>556,500</u>	<u>2,750</u>	<u>-</u>
Total Municipal:	36,030,665	10,287,586	7,443,362
Investor-owned:			
Artesian Water Company	12,663,924	7,133,136	7,435,893
Tidewater Utilities, Inc.	6,940,600	4,040,928	3,657,645
J.H. Wilkerson & Son, Inc.	<u>410,800</u>	<u>335,078</u>	<u>348,654</u>
Total Investor-owned	20,015,324	11,509,142	11,442,192
Mobile Home Park:			
Innovative Construction	<u>34,321</u>	<u>27,417</u>	<u>28,687</u>
	56,080,310	21,824,145	18,914,241
Less: Current portion	<u>-</u>	<u>486,926</u>	<u>539,101</u>
	<u>\$ 56,080,310</u>	<u>\$ 21,337,219</u>	<u>\$ 18,375,140</u>

Interest charged on these loans ranges from 1.50% to 4.46%. Interest earned on loans receivable was \$669,555 and \$593,151 for the years ending June 30, 2006 and 2005, respectively.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

LOANS RECEIVABLE (Cont'd.)

Loan maturities vary based on individual agreements. General Obligation and Municipal Revenue Bonds are collateral for municipal loans; business assets and real estate are collateral for investor-owned and mobile home park loans.

There is no allowance for doubtful accounts as of June 30, 2006 and 2005. As of June 30, 2006 and 2005, there were no material delinquent loan balances. There were no loan defaults for the years ended June 30, 2006 and 2005. There has been no history of significant bad debts or uncollectible accounts.

Binding Loan Commitments: The Fund has \$56,080,310 of current and future binding loan commitments as of June 30, 2006. EPA had set a binding commitment target of \$52,439,308 through June 30, 2006. The Fund has reached this level.

NOTE 7 DEFERRED REVENUE - STATE MATCH

As of June 30, 2006, the Fund had total available state match funding in its separate cash account as follows:

<u>Grant Year</u>	<u>Committed Portion of Available Funding</u>	<u>Disbursed to Date</u>	<u>Remaining Balance</u>
1997	\$ 2,511,760	\$ 2,511,760	\$ -
1999	2,917,020	873,065	2,043,955
2001	1,551,400	576,650	974,750
2002	1,557,820	815,137	742,683
2003	1,610,500	237,369	1,373,131
2004	1,600,820	262,272	1,338,548
2005	<u>1,660,620</u>	<u>-</u>	<u>1,660,620</u>
Total	<u>\$ 13,409,940</u>	<u>\$ 5,276,253</u>	<u>\$ 8,133,687</u>

Interest earned on cash deposits totals \$289,038 and \$107,480 for the years ending June 30, 2006 and 2005, respectively.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 8 STATE ADVANCES

The State advances of \$116,424 and \$601,728 as of June 30, 2006 and 2005, respectively, represent amounts advanced to the Fund by the State's General Fund in anticipation of reimbursement from Federal grants.

NOTE 9 PENSION

Employees of the Fund are considered employees of the State of Delaware ("State") and are covered under The State Employees' Pension Plan. Total pension cost of \$68,273 for 2006 and \$48,831 for 2005 is included in the financial statements personnel costs. Certain significant plan provisions follow:

Detailed information regarding this plan is available in the Delaware Code and the Rules and Regulations of the Board of Pension Trustees.

Plan Description and Eligibility: The State Employees' Pension Plan is a cost-sharing multiple employer defined benefit plan that covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities.

Service Benefits: Final average monthly compensation multiplied by 2.0% and multiplied by years of credited service prior to January 1, 1997 plus final average compensation multiplied by 1.85% and multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For this plan, final average monthly compensation is the monthly average of the highest three years of compensation.

Vesting: Five (5) years of credited service.

Retirement: Age 62 with five (5) years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service at any age.

Disability Benefits: Same as Service Benefits. Employee must have five (5) years of credited service.

Survivor Benefits: If employee is receiving a pension or is active with at least five (5) years of credited service, eligible survivor receives 50% (or 75% with 3% reduction of benefit) of the benefit the employee would have received at age 62.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

PENSION (Cont'd.)

Contributions:

Employer - Determined by Board of Pension Trustees.

Employee - 3 % of earnings in excess of \$6,000.

Death Benefit: \$7,000 per member.

The Delaware Public Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information of the plan. The financial report may be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

NOTE 10 COMMITMENTS AND CONTINGENCIES

General: The Fund is exposed to various risks of loss related to torts, thefts of assets, errors or omissions, injuries to state employees while performing Fund business, or acts of God.

The State maintains insurance for all risks of loss which is included in the indirect costs charged to the Fund. There have not been any claims against the Fund since its inception.

Lease: The State of Delaware, Department of Administrative Services (DAS), on behalf of the Fund, entered into an operating lease for the office space occupied by the Fund on September 17, 1999. The DAS agreed to execute a First Amendment and Extension of Lease on November 1, 2004. Annual rental under the amended lease is \$61,113 per annum (\$5,259 per month). The DAS further agreed to execute a Second Amendment and Extension of Lease on May 17, 2006. Annual rental under the second amended lease is \$64,260 per annum (\$5,335 per month).

The first extended lease commenced November 1, 2004 and terminated on April 30, 2006. The second extended lease commenced May 1, 2006 and terminates on October 31, 2006. A month-to-month provision is included in the second extended lease until lessee vacates the premises.

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 11 LOAN TO DRINKING WATER GRANT FUND

The Fund loaned \$891,050 during fiscal year 2005 to the State of Delaware, Department of Health and Social Services, Division of Public Health, Office of Drinking Water, Drinking Water Grant Fund (DWGF). This loan was made to assist DWGF's shortage of cash available to pay an obligation incurred during the fiscal year. DWGF will repay the Fund in full at no interest during fiscal year 2007.

SUPPLEMENTARY INFORMATION

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
STATEMENT OF FUND NET ASSETS BY FUND
JUNE 30, 2006

	Loan Fund	2% Technical Assistance	4% Admin- istration	10% Program Management	15% Local Assistance	Total
CURRENT ASSETS						
Cash	\$ 11,116,618	\$ (6,981)	\$ 6,981		\$ -	\$ 11,116,618
Loans receivable - current portion	486,926	-	-	-	-	486,926
Loan interest receivable	344,897	-	-	-	-	344,897
Federal grants receivable	(1,426,192)	61,228	176,857	516,793	787,738	116,424
State grants receivable	1,660,620	-	-	-	-	1,660,620
Loan to Drinking Water Grant Fund	891,050	-	-	-	-	891,050
 Total current assets	 13,073,919	 54,247	 183,838	 516,793	 787,738	 14,616,535
NONCURRENT ASSETS						
Loans receivable - net of current portio	21,337,219	-	-	-	-	21,337,219
 Total assets	 <u>\$ 34,411,138</u>	 <u>\$ 54,247</u>	 <u>\$ 183,838</u>	 <u>516,793</u>	 <u>\$ 787,738</u>	 <u>\$ 35,953,754</u>
 CURRENT LIABILITIES						
State advances	\$ (1,426,192)	\$ 61,228	\$ 176,857	\$ 516,793	\$ 787,738	\$ 116,424
LONG-TERM LIABILITIES						
Deferred revenue - state match	8,133,687	-	-	-	-	8,133,687
 Total liabilities	 6,707,495	 61,228	 176,857	 516,793	 787,738	 8,250,111
 NET ASSETS - unrestricted	 27,703,643	 (6,981)	 6,981	 -	 -	 27,703,643
 Total liabilities and net assets	 <u>\$ 34,411,138</u>	 <u>\$ 54,247</u>	 <u>\$ 183,838</u>	 <u>\$ 516,793</u>	 <u>\$ 787,738</u>	 <u>\$ 35,953,754</u>

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
STATEMENT OF FUND NET ASSETS BY FUND
JUNE 30, 2005

	Loan Fund	2% Technical Assistance	4% Admin- istration	10% Program Management	15% Local Assistance	Total
CURRENT ASSETS						
Cash	\$ 7,144,385	\$ -	\$ -	\$ -	\$ -	\$ 7,144,385
Loans receivable - current portion	539,101	-	-	-	-	539,101
Loan interest receivable	291,535	-	-	-	-	291,535
Loan from Drinking Water Grant Fund	891,050	-	-	-	-	891,050
Federal grants receivable	385,708	1,165	43,985	41,809	129,061	601,728
State grants receivable	3,271,120					3,271,120
Total current assets	12,522,899	1,165	43,985	41,809	129,061	12,738,919
NONCURRENT ASSETS						
Loans receivable - net of current portion	18,375,140	-	-	-	-	18,375,140
Total assets	<u>\$ 30,898,039</u>	<u>\$ 1,165</u>	<u>\$ 43,985</u>	<u>\$ 41,809</u>	<u>\$ 129,061</u>	<u>\$ 31,114,059</u>
CURRENT LIABILITIES						
State advances	\$ 385,708	\$ 1,165	\$ 43,985	\$ 41,809	\$ 129,061	\$ 601,728
LONG-TERM LIABILITIES						
Deferred revenue - state match	7,339,627	-	-	-	-	7,339,627
Total liabilities	7,725,335	1,165	43,985	41,809	129,061	7,941,355
NET ASSETS - unrestricted	23,172,704	-	-	-	-	23,172,704
Total liabilities and net assets	<u>\$ 30,898,039</u>	<u>\$ 1,165</u>	<u>\$ 43,985</u>	<u>\$ 41,809</u>	<u>\$ 129,061</u>	<u>\$ 31,114,059</u>

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS BY FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Loan Fund	2% Technical Assistance	4% Adminis- tration	10% Program Management	15% Local Assistance	Total
OPERATING REVENUE						
Interest income - loans	\$ 334,778	\$ -	\$ -	\$ -	\$ -	\$ 334,778
Interest income - administrative fee	334,777	-	-	-	-	334,777
Loan origination fees	104,683	-	-	-	-	104,683
Total operating revenue	774,238	-	-	-	-	774,238
OPERATING EXPENSES						
Salaries and related benefits	-	7,803	128,759	289,462	229,743	655,767
Contract services	-	115,837	63,526	187,910	111,071	478,344
Indirect costs	-	757	13,306	32,973	22,114	69,150
Subgrants	-	-	116,856	190,510	492,506	799,872
Supplies	-	-	-	19,280	25,964	45,244
Equipment	-	-	-	3,814	7,168	10,982
Training	-	-	-	8,150	-	8,150
Travel	-	-	-	3,751	5,694	9,445
Total operating expenses	-	124,397	322,447	735,850	894,260	2,076,954
Operating income (loss)	774,238	(124,397)	(322,447)	(735,850)	(894,260)	(1,302,716)
NON-OPERATING REVENUE						
Interest income - cash	289,038	-	-	-	-	289,038
Grant revenue	2,666,000	-	-	-	-	2,666,000
Grant revenue - set asides	-	124,397	322,447	730,753	894,260	2,071,857
State match	801,663	-	-	5,097	-	806,760
Total non-operating revenue	3,756,701	124,397	322,447	735,850	894,260	5,833,655
CHANGE IN NET ASSETS	4,530,939	-	-	-	-	4,530,939
Net assets, beginning of year	23,172,704	-	-	-	-	23,172,704
Net assets, end of year	\$ 27,703,643	\$ -	\$ -	\$ -	\$ -	\$ 27,703,643

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS BY FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Loan Fund	2% Technical Assistance	4% Adminis- tration	10% Program Management	15% Local Assistance	Total
OPERATING REVENUE						
Interest income - loans	\$ 296,576	\$ -	\$ -	\$ -	\$ -	\$ 296,576
Interest income - administrative fees	296,575	-	-	-	-	296,575
Application fees	135,497	-	-	-	-	135,497
Total operating revenue	728,648	-	-	-	-	728,648
OPERATING EXPENSES						
Salaries and related benefits	-	7,039	90,049	252,998	175,279	525,365
Contract services	(2,100)	26,192	909	239,826	27,820	292,647
Indirect costs	-	791	9,410	36,625	17,910	64,736
Subgrants	-	-	106,398	224,755	742,951	1,074,104
Supplies	-	-	-	50,389	-	50,389
Equipment	-	-	-	6,508	-	6,508
Training	-	-	-	8,500	-	8,500
Travel	-	-	-	6,110	-	6,110
Total operating expenses	(2,100)	34,022	206,766	825,711	963,960	2,028,359
Operating income (loss)	730,748	(34,022)	(206,766)	(825,711)	(963,960)	(1,299,711)
NON-OPERATING REVENUE						
Interest income - cash	107,480	-	-	-	-	107,480
Grant revenue	3,782,302	-	-	-	-	3,782,302
Grant revenue - set asides	-	34,022	206,766	825,711	963,960	2,030,459
State match	1,064,809	-	-	-	-	1,064,809
Total non-operating revenue	4,954,591	34,022	206,766	825,711	963,960	6,985,050
CHANGE IN NET ASSETS	5,685,339	-	-	-	-	5,685,339
Net assets, beginning of year	17,487,365	-	-	-	-	17,487,365
Net assets, end of year	<u>\$23,172,704</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$23,172,704</u>

Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements
in Accordance with Government Auditing Standards

To the Management
Drinking Water Revolving Loan Fund
Dover, Delaware

We have audited the accompanying financial statements of the State of Delaware Drinking Water Revolving Loan Fund (the Fund) as of and for the year ended June 30, 2006, and have issued our report thereon dated October 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements
in Accordance with Government Auditing Standards (Cont'd.)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Fund's management, Environmental Protection Agency, Office of Auditor of Accounts, Office of the Governor, Office of the Controller General, Office of the Budget, Office of the Attorney General and the Department of Finance and is not intended to be used and should not be used by anyone other than these specified parties. However, under 29Del.C., Section 10002(d), this report is a public record and its distribution is not limited.

McBride, Shogan & Co

Wilmington, Delaware
October 31, 2006

STATE OF DELAWARE
DRINKING WATER REVOLVING LOAN FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2006

CURRENT YEAR FINDINGS

NONE